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October 22, 2001

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Hon. Melvin Malone, Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: *Generic Docket Addressing Rural Universal Service*
Docket No. 00-00523

BellSouth's Response to September 4, 2001 Letter of Stephen G.
Kraskin on behalf of the Coalition of Small LECs and Cooperatives

Dear Director Malone:

BellSouth appreciates you forwarding the above referenced letter and providing BellSouth an opportunity to respond to the matters raised by the Small Company Coalition.

BellSouth was initially puzzled by the letter, its intent and the relief requested. In subsequent discussions with representatives of the Small Company Coalition, it was explained that the letter's purpose was to simply advise the Authority of the varying pressures, economically and regulatorily, facing the individual members of the Small Company Coalition. While we understand and appreciate the Coalition's concerns, these issues are not unique to the Coalition nor are they necessarily new. For years, BellSouth has been under the same types of economic pressures as the Coalition now faces and has faced the difficult decisions now pressing the Coalition members.

Like BellSouth, the Coalition is historically encumbered by a rate structure devised under a rate of return regime that not only ignores, but flies directly in the face of economic efficiency. It has been well documented in the Universal Service Docket (Docket No. 97-00888) that BellSouth's cost to provide basic local exchange service is below the revenue received for that service. Our most expensive customers to serve – rural customers – have the lowest rates. Example after example of uneconomic rates can be given.

The Coalition shares these circumstances and, in some instances, even has more problematic pricing structures. While some of these issues need to be addressed by the Authority, others need to be addressed by the companies themselves. Moreover, while it is informative to advise the Authority of the actions of the FCC, the fact remains that the Authority has no jurisdiction to alter or amend those decisions. They are simply the foreshadowings of the changes coming to the telecommunications industry, which will affect large and small companies alike.

With this predicate, BellSouth questions whether the Generic Docket Addressing Rural Universal Service is the appropriate forum for addressing the concerns expressed in the Coalition's letter. Including numerous FCC issues would expand, complicate and delay the pending docket for no good reason since the TRA's authority does not supercede that of the FCC.¹ Likewise, including the issues between the Coalition and BellSouth into the Generic Docket would result in similar delay and complication.

The Authority is well aware that last year BellSouth terminated its contract (Primary Carrier Plan) with the small ILECs for intraLATA toll settlement arrangements in conjunction with negotiations to move to an arrangement more in keeping with the competitive environment. The small ILECs and BellSouth ultimately agreed upon an interim reduction of our billing and collection fees so as to bring those fees into line with what the ILECs charge IXCs for similar services. That interim arrangement contemplated continuing negotiations toward a new agreement to be in place by January 2002. BellSouth informed the Coalition representatives, in a meeting on October 18, 2002, of its willingness to continue the pre-existing settlement agreement but expressed a need to modify that agreement to reflect parity between the access rates charged BellSouth, and those

¹ As the Small Company Coalition points out, it is orders and rulemakings by the Federal Communications Commission ("FCC") that have inspired the small LECs to seek relief from the TRA. Specifically, the Small Company Coalition believes that the FCC's recent Inter-carrier Compensation Order is disadvantaging the rural LECs and questions the applicability of the Order to the rural LECs. The FCC has definitively stated that that Order does apply to rural LECs. Further, the FCC has retained jurisdiction over this issue and BellSouth believes that the Small Company Coalition must raise its concerns within the context of the FCC's NPRM in docket CC-01-92 rather than request the TRA to expand an inapplicable docket.

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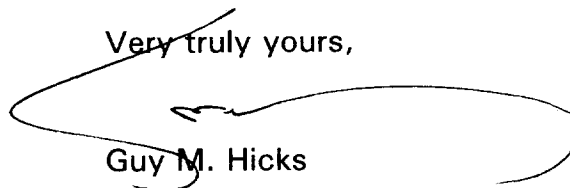
charged to IXCs. In other words, what BellSouth requested is that as of January 2002 we would eliminate the discriminatory and competitive disadvantage resulting from tariffed access rates being different for BellSouth and IXCs. From that meeting we understand that the Coalition is reluctant to enter into such an agreement without having in place and, as a condition precedent, specific recovery of any reduction resulting from such a tariff change.

With this understanding, the Coalition's suggestion that this issue be either co-opted into the Rural Service Docket or be the subject of broad workshops causes concern on several levels. First, as discussed above, the issues raised by the Coalition are much broader than BellSouth's. BellSouth believes that the issue we had hoped to resolve by January 2002 can be easily solved by the Coalition companies rebalancing their access tariff with the contract rates to achieve revenue neutrality. BellSouth believes this would have minimal impact on the Coalition, if any. Second, the Rural Generic Docket promises to be a lengthy affair covering many policy issues. One has only to look at the Universal Service Docket (Docket No. 97-00888) and the number of pleadings filed in that docket to see the potential scope.

While BellSouth is always willing to negotiate with members of the Coalition, and is agreeable to a workshop specifically for the purpose of resolving our particular issues, we are reluctant to enter into workshops covering the myriad of issues contained in the Coalition's letter and not reaching closure on our issue until resolution of all those issues.

In conclusion, therefore, BellSouth believes that its issues with the Coalition can be resolved quickly and without being included in the Generic Docket. Certainly BellSouth is willing to discuss our issues with the Coalition and will commit to do so. However, these issues should not be commingled with the various issues outlined in the Coalition's letter and the suggestion that no issue be resolved until all are resolved.

Very truly yours,

A handwritten signature in black ink, appearing to read "Guy M. Hicks", is written over a large, stylized, looping flourish that extends to the left and right.

Guy M. Hicks

GMH:ch

CERTIFICATE OF SERVICE

I hereby certify that on October 22, 2001, a copy of the foregoing document was served on the parties of record, via the method indicated:

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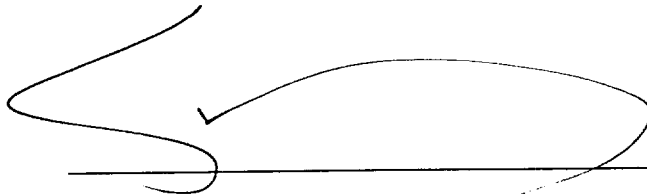
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A handwritten signature in black ink, appearing to read 'James R. Kelley', written over a horizontal line.